

Message Text

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14

ACTION EB-07

INFO OCT-01 EUR-12 EA-09 IO-13 ISO-00 AID-05 CIAE-00

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FM AMEMBASSY ROME

TO SECSTATE WASHDC 8994

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

USMISSION EC BRUSSELS

AMCONSUL FLORENCE

USMISSION GENEVA

AMCONSUL GENOA

AMEMBASSY LONDON

AMCONSUL MILAN

AMCONSUL NAPLES

AMEMBASSY OTTAWA

AMCONSUL PALERMO

AMEMBASSY PARIS

USMISSION OECD PARIS

AMEMBASSY STOCKHOLM

AMEMBASSY THE HAGUE

AMEMBASSY TOKYO

AMCONSUL TRIESTE

AMCONSUL TURIN

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TAGS: EFIN, ETRD, IT, GATT, OECD, IMF

SUBJ: GOI ANNOUNCES THREE MONTH EXTENSION OF PRIOR DEPOSIT PROGRAM

REF : (A) ROME 11379 (NOTAL)

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(B) ROME 11773 (NOTAL)

SUMMARY. MINISTER OF TREASURY COLOMBO MADE OFFICIAL STATEMENT JULY 21 THAT EXISTING 50 PERCENT PRIOR DEPOSIT ON MOST PURCHASES OF FOREIGN EXCHANGE WILL BE EXTENDED TO NOVEMBER 3, 1976. DECREE WAS TO HAVE TERMINATED ON AUGUST 3. COLOMBO ANNOUNCED THAT BOTH EC COMMISSION AND IMF HAD APPROVED EXTENSION OF PRIOR DEPOSIT. //END SUMMARY//.

1. FOLLOWING IS TEXT OF COLOMBO STATEMENT. BEGIN QUOTE.
THE ITALIAN GOVERNMENT ASKED THE COMMISSION OF THE EUROPEAN ECONOMIC COMMUNITY TO AUTHORIZE AN EXTENSION FOR A FURTHER PERIOD OF THREE MONTHS, UNTIL NOVEMBER 3, 1976, OF THE 50 PERCENT NON-INTEREST BEARING DEPOSIT REQUIREMENT ON FOREIGN PAYMENTS WHICH WAS AUTHORIZED BY THE COMMISSION OF THE EC BY ITS DECISION OF MAY 5, 1976. THE ITALIAN GOVERNMENT SENT A SIMILAR REQUEST TO THE INTERNATIONAL MONETARY FUND. THE EC COMMISSION HAS DECIDED FAVORABLY ON THE ITALIAN REQUEST FOR EXTENSION AND HAS AUTHORIZED THE ITALIAN GOVERNMENT TO APPLY THE 50 PERCENT DEPOSIT UNTIL NOVEMBER 3, 1976. A SIMILAR FAVORABLE DECISION HAS BEEN ADOPTED BY THE INTERNATIONAL MONETARY FUND.

2. THERE IS NO QUESTION ABOUT THE USEFULNESS OF THE MEASURE AS A PURELY EXCEPTIONAL INSTRUMENT FOR ABSORBING LIQUIDITY AND STABILIZING THE LIRA EXCHANGE RATE WHEN ONE CONSIDERS THE MOVEMENT OF THE EXCHANGE RATE SINCE LAST MAY AND THE CUMULATIVE AMOUNT OF THESE DEPOSITS WITH THE BANK OF ITALY WHICH, TO DATE, AMOUNT TO ABOUT 3,200 BILLION LIRE. OBVIOUSLY, THE DEPOSIT CANNOT BE REGARDED AS A LONG TERM INSTRUMENT OF STABILIZATION OF THE EXCHANGE RATE AND MUST, THEREFORE, BE REVOKED AS SOON AS POSSIBLE.

3. THE REQUEST FOR EXTENSION WAS MOTIVATED BY THE NEED OF THE ITALIAN AUTHORITIES TO BE ABLE TO HAVE AVAILABLE THE INDISPENSABLE AMOUNT OF TIME REQUIRED TO COMPLETE THE STABILIZATION PROGRAM BEGUN IN RECENT MONTHS THROUGH ADOPTION OF LONG-TERM ECONOMIC POLICIES. THEREFORE, A DECREE NOW IN THE COURSE OF PUBLICATION PROVIDES FOR EXTENSION UNTIL NOVEMBER 3, 1976 OF THE 50 PERCENT REQUIRED DEPOSIT ON THE SAME CONDITIONS AND TO THE SAME EXTENT AS THAT PROVIDED FOR IN THE MINISTERIAL UNCLASSIFIED

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DECREES OF MAY 6, 1976 AND JUNE 12, 1976. //END QUOTE//.

4. /COMMENT/. ITALIAN PRESS REPORTS RATHER FAVORABLY ON EXTENSION OF PRIOR DEPOSIT, WHICH HAD BEEN WIDELY EXPECTED. MILAN'S FINANCIAL DAILY "IL SOLE/24 ORE" COMMENTS THAT ITALIAN INDUSTRY HAD, NONETHELESS, HOPED THAT PRIOR DEPOSIT MIGHT HAVE BEEN REMOVED ON SCHEDULE IN VIEW OF HIGH INTEREST COSTS ON BANK LOANS TO BUSINESS TO FINANCE DEPOSIT.

ARTICLE NOTES IMPORTANT ABSORPTIVE EFFECT OF MEASURE ON DOMESTIC LIQUIDITY BUT POINTS OUT THAT THIS WILL BE LARGELY MITIGATED BEGINNING IN EARLY AUGUST AS EARLIER PRIOR DEPOSITS ARE RELEASED AT END OF 90-DAY PERIOD, LARGELY OFFSETTING NEW DEPOSITS WHICH WILL BE MADE IN AUGUST-OCTOBER. EFFECT OF MEASURE SEEMS TO HAVE BEEN MAINLY ONE OF LIQUIDITY ABSORPTION RATHER THAN DISCOURAGING IMPORTS THEMSELVES (SEE REF. B). CONSEQUENTLY, IT IS GENERALLY BELIEVED THAT THERE HAS NOT BEEN ANY IMPORTANT BUILD-UP OF IMPORT DEMAND SINCE MEASURE WAS INTRODUCED. HOWEVER, TO EXTENT THAT PRIOR DEPOSIT HAS BEEN FINANCED FROM FOREIGN SUPPLIER CREDITS OR OTHER FOREIGN BORROWING, SOME BACKLOG OF ACTUAL FOREIGN EXCHANGE PAYMENTS MAY BE ACCUMULATING.VOLPE

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